

**RHS, RBS, RUS, FSA, USDA****§ 1956.66**

the borrower has received debt forgiveness on any other direct loan as defined in § 1956.54 of this subpart.

[56 FR 10147, Mar. 11, 1991, as amended at 58 FR 21344, Apr. 21, 1993; 62 FR 10157, Mar. 5, 1997; 68 FR 7700, Feb. 18, 2003]

**§§ 1956.58–1956.65 [Reserved]****§ 1956.66 Compromise and adjustment of nonjudgment debts.**

Nonjudgment debts which the debtor is unable to pay may be compromised or adjusted in accordance with applicable provisions of this section, and the debtor may retain the security property, if any. Application will be made on Form RD 1956–1 by the debtor; or if the debtor is unable to act, by another party having legal authority to act for the debtor. Collection of a lump sum offer may be deferred until the debtor is advised that the offer is approved. Upon full payment of the approved compromise or adjustment amount, the Agency will release the debtor from liability by delivering the note(s) to the debtor stamped “Satisfied by compromise or adjustment.”

(a) *FLP debts.* The debt or any extension thereof on which compromise or adjustment is requested does not have to be due and payable under the terms of the note or other instrument, or because of acceleration by written notice prior to the date of application. Nonjudgment secured FLP debts may be compromised or adjusted in accordance with the following conditions:

(1) Security may be retained by the debtor if the debtor offers an amount at least equal to the current fair market value (including any crop security) less any prior lien amounts. Any remaining unsecured debt may be debt settled.

(2) Where the debtor is able to pay an amount in excess of the lump sum compromise offer, an adjustment offer must call for a lump sum payment as set out in paragraph (a)(1) of this section, plus any additional amounts the Agency determines the debtor is able to pay over a period of time not to exceed 5 years.

(3) The acceptability of a compromise or adjustment offer will be arrived at by determining and evaluating:

(i) Statement of indebtedness owed on any prior liens. Statements will be retained in the debtor’s file.

(ii) Value of existing security as determined by a current appraisal made or obtained by the Agency. The appraisal will be retained in the debtor’s file.

(iii) Debtor’s total present income and probable sources, amount and stability of income over the next 5 years. Old age pensions, other public assistance, and veteran’s disability pensions will not be considered as sources of funds for making compromise and adjustment offers.

(iv) Amount of debtor’s other debts.

(v) Amount of debtor’s essential family living expenses, and farm or business operation expenses necessary to continue the operation, if applicable.

(vi) Age and health when the debtor is largely depending on income from an occupation where manual labor is required.

(vii) Size of debtor’s family, their ages and health.

(viii) Value of debtor’s assets in relation to debts and liens of third parties. Reasonable equity in a modest nonsecurity homestead occupied by the debtor will not be considered as available for settlement. Nonsecurity property in excess of minimum family living needs which is not exempt from levy and execution should be considered in determining the debtor’s ability to pay.

(b) *Housing debts (both Single-family and Multi-family).* Nonjudgment secured debts may be compromised or adjusted as follows:

(1) The debt is fully matured under the terms of the note or other instrument; or has been accelerated by written notice prior to the date of the settlement application.

(2) A compromise offer must at least equal the value of the security as determined by FmHA or its successor agency under Public Law 103–354 (less any prior liens) plus any additional amount FmHA or its successor agency under Public Law 103–354 determines the debtor is able to pay based on a current financial statement.

(3) An adjustment offer must meet the requirements of paragraph (b)(2) of this section, except the debt (or the

amount offered) is to be scheduled for payment over the shortest period FmHA or its successor agency under Public Law 103-354 determines is feasible based on the debtor's financial resources, but not to exceed 5 years.

(c) *Unsecured debts.* Unsecured debts considered under this paragraph (c) are most frequently account balances remaining after the debtor has sold security property to another party/entity, the security has been liquidated through foreclosure, or FmHA or its successor agency under Public Law 103-354 has accepted a deed in lieu of foreclosure and the borrower was not released from liability. An offer to compromise or adjust an unsecured debt must represent the maximum amount FmHA or its successor agency under Public Law 103-354 determines the debtor can pay based on a current financial statement and other information available to FmHA or its successor agency under Public Law 103-354. An adjustment offer is to be scheduled for payment over the shortest period FmHA or its successor agency under Public Law 103-354 determines is feasible, but not to exceed 5 years.

[56 FR 10147, Mar. 11, 1991, as amended at 58 FR 21345, Apr. 21, 1993; 62 FR 10157, Mar. 5, 1997]

**§ 1956.67 Debts which the debtor is able to pay in full but refuses to do so.**

Debts which the debtor may have the ability to pay in full but has refused to do so may be compromised or adjusted in the following situations on Form FmHA or its successor agency under Public Law 103-354 1956-1:

(a) When the full amount cannot be collected because of the refusal of the debtor to pay the debt in full and the OGC advises that the Government is unable to enforce collection in full within a reasonable time by enforced collection proceedings, the debt may be compromised. In determining inability to collect, the following factors will be considered:

(1) Availability of assets or income which may be realized by enforced collection proceedings, considering the applicable exemptions available to the debtor under State and Federal law.

(2) Inheritance prospects within 5 years.

(3) Likelihood of debtor obtaining nonexempt property or income within 5 years, out of which there could be collected a substantially larger sum than the amount of the present offer.

(4) Uncertainty as to price the security or other property will bring at forced sale.

(b) The debt may be compromised or adjusted when the OGC has advised in writing that:

(1) There is a real doubt concerning the Government's ability to prove its case in court for the full amount of the debt, and

(2) The amount offered represents a reasonable settlement considering:

(i) The probability of prevailing on the legal issues involved.

(ii) The probability of proving facts to establish full or partial recovery, with due regard to the availability of witnesses and other pertinent factors.

(iii) The probable amount of court costs and attorney's fees which may be assessed against the Government if it is unsuccessful in litigation.

(c) When the cost of collecting the debt does not justify enforced collection of the full amount, the amount accepted in compromise or adjustment may reflect an appropriate discount for administrative and litigation costs of collection. Such discount will not exceed \$2,000 unless the OGC advises that in the particular case a larger discount is appropriate. The cost of collecting may be a substantial factor in settling small debts but normally will not carry great weight in settling large debts.

**§ 1956.68 Compromise or adjustment without debtor's signature.**

Debts of a living debtor may be compromised or adjusted if it is impossible or impracticable to obtain a signed application and all other requirements of this section applicable to compromise or adjustment with a signed application have been met. Form FmHA or its successor agency under Public Law 103-354 1956-1 will show:

(a) The sources from which the information was obtained.

(b) That a current effort was made to obtain the debtor's signature and the date(s) of such effort.